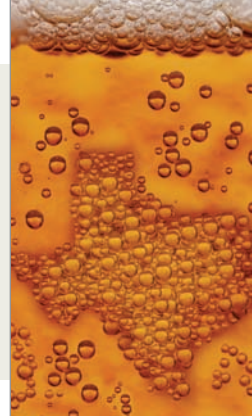


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What this
Economy
Means to
Small
Business
PAGE 3



Texas
Craft Brews
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FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts, June/July 2009

MAY REVENUE (IN MILLIONS): SALES TAX: \$1,778.6 OIL PRODUCTION: \$57.1 NATURAL GAS: \$24.2 MOTOR FUELS: \$250.9 MOTOR VEHICLE SALES: \$185.7 TOBACCO: \$111.5

Around Texas

- Employment in Texas' clean energy sector grew twice as fast as overall jobs between 1998 and 2007, according to a new study released by the Pew Charitable Trusts.
- Dallas-based Dean Foods has agreed to purchase the Belgium-based soy beverage company Alpro for about \$455 million.
- Software company Tyler Technologies Inc. is building a new Lubbock facility that is expected to create more than 100 high-tech jobs.
- Standard Renewable Energy, a Houston firm selling solar and wind energy equipment and related products and services, has announced plans to open a new office in San Antonio.



BIG NAMES DOMINATE TEXAS BUSINESS

Across the nation, state and local government officials strive to create business landscapes that appeal to A-list companies in hopes of attracting jobs and new opportunities — factors that contribute greatly to the economic health and prosperity of the citizenry. Competition for the big players, needless to say, is stiff.

Texas has already set the bar for attracting the corporate elite. More Fortune 500 companies are headquartered in Texas than

in any other state, with 64 companies in 2008, up from 56 in 2007.

Marathon Oil is based in Texas, as are AT&T, Dell, Sysco, J.C. Penney, Exxon Mobil, Blockbuster and Neiman Marcus.

"The presence of so many high-profile and successful corporations in Texas is an indicator of the strong business climate in our state," says Texas Comptroller Susan Combs.

CONTINUED ON PAGE 6

Hard Times, Hardy Texans

TIMES *are* hard. Just reading the economic news can be disheartening. The solution is not just another government program. It's in ourselves — our daily decisions about how we live our lives, run our businesses, educate our children and prepare for our future.

I take comfort in being a Texan and all that it means. Texas is usually defined by its larger-than-life myths. Think of Bick Benedict and Jett Rink in the movie *Giant*.

Or two retired Texas Rangers — Gus McCrae and Woodrow Call — in the book *Lonesome Dove*.

Myths spring from a long-ago reality, but Texans are larger than their myths. We are a hardy bunch, self-reliant and, yes, hardheaded at times. Those traits will serve us well during these tough times.

We also are a diverse people living on a diverse land. Texas is 801 miles north to south and 773 miles east to west. Throughout our history, that mighty expanse has been a magnet for settlers looking for opportunity.

And people keep coming to Texas. We'd better be prepared. We'll need water, infrastructure, a trained work force and the energy to make it all work.

We already have an attractive business climate. Our state economy is more diversified than Mexico's or Canada's. And thanks to the lessons we learned in the recession of the 1980s, our state budget includes a Rainy Day Fund to help us make ends meet.

At the Comptroller's office, we're encouraging the state to save money by leveraging its buying power for goods and services, as part of our Texas Smart Buy Initiative.

We're also urging parents to prepay their children's college tuition at today's prices in the Texas Tuition Promise Fund. And we're making our economic data readily available to help communities and businesses make better decisions about their futures.

After all, today is the best time to prepare for tomorrow's prosperity.

The solution is not just another government program. It's in ourselves — our daily decisions about how we live our lives, run our businesses, educate our children and prepare for our future.



Susan Combs

When You're the Boss

Desperate for work, Josh Edinger learned to pour espresso. While working for 18 months at a coffee shop near Dallas, he got the itch to go from barista to business owner.

"I knew someday, somehow that I would do this," he says.

Before serving coffee, Edinger worked at McDonald's for five years, where he became an assistant manager. After he and his wife moved from Dallas to Longview, he managed a local deli for another four years. But about two years ago, friends agreed to invest in Edinger's business idea. With help from the Kilgore Economic Development Center, he navigated his way through the paperwork and planning that opening a business entails.

In September 2008, Edinger opened the Mugshot Coffee House in Longview.

SMALL BUSINESS, BIG DREAM

In 2006, Texas was home to 2.1 million small businesses — those with fewer than 500 employees — that produced \$136.9 billion in income. Edinger's coffee shop, with its 10 employees, is among those small businesses that represented 98.7 percent of the state's employers in 2006, according to Small Business Administration (SBA) statistics. The number of owner-operated businesses exceeded 1.7 million, 36.6 percent more than in 2000.

A decline in manufacturing jobs could be prompting Tyler residents to investigate business ownership, says Don Proudfoot, director for the Tyler Small Business Development Center (SBDC).

Proudfoot is concerned with diminishing manufacturing jobs and having to rely solely on the service industry. The city's unemployment rate was 7.1 percent in May, up from 3.4 percent a year ago.

Kilgore SBDC officials say they initially saw a decline in clients in 2009, but from February to April, class attendance rose by 30 to 35 percent.

"A lot of it has to do with the downsizing of the larger corporations," says Brad Bunt, director of the Kilgore SBDC.

Even in tough times,
small business
ownership thrives.

Despite an uncertain economy, Edinger encourages more people to start their own business, even if it takes years of planning, paperwork and a lot of trial and error.

"Just do it," he says.



Stephanie Vandegrift,
Owner,
Stephanie's Premium
Bakery

SWEET IDEA

When marketing account manager Stephanie Vandegrift brought cookies to her presentations, attendance increased. With help from a baker friend, she later added company logos to her cookies. The idea sparked her Dallas-based Stephanie's Premium Bakery, where for the past 10 years, Vandegrift has created cookie billboards and other edible corporate marketing treats.

"I just thought it would work, so it wasn't a risk," she says.

Confident in her marketing skills from her 20-year career at companies



including Coca-Cola, the Nielsen Company and PricewaterhouseCoopers, she cashed in her retirement fund to finance her from-scratch business. Today she employs 10 people who produce up to 5,000 cookies a day.

Vandegrift is part of the fastest-growing demographic among business owners. In 2006, there were an estimated 10.6 million privately held, woman-owned

CONTINUED PAGE 4



FOR BUSINESS

Texas gained 114,707 new businesses in calendar 2008, about 8,000 fewer than in 2007, according to business filings with the Secretary of State.

NEW TEXAS BUSINESS TYPES

	2008	2007
Foreign Limited Partnership	0	2
Domestic Nonprofit Corporation	9,568	9,963
Domestic For-Profit Corporation	28,136	32,064
Domestic Limited Partnership (LP)	7,912	10,718
Domestic Professional Corporation	1,055	1,113
Domestic Limited Liability Company (LLC)	68,036	69,055

Source: Texas Secretary of State

Reversing the Housing Slump

New Opportunities
for Homeowners
and Home Buyers

The Texas housing market held up well as bubbles burst in other parts of the country. Now, with historically low interest rates and a variety of available tax credits, there's good news whether you're looking to buy your first house, make a current one greener or help your golden years shine a bit brighter.

The federal stimulus package contains a number of ways for consumers to increase their purchasing power or make energy-saving home improvements. First-time homebuyers can receive a tax credit of up to \$8,000 if they purchase a principal residence between Jan. 1 and Dec. 1, 2009, and stay in the home for at least three years.

Similarly, the Weatherization Assistance Program administered by state and local governments offers homeowners up to \$6,500 for making a home airtight with insulation or new windows. If homeowners want to take green to the next level and put solar panels on that new roof, they can get tax credits worth 30 percent of the cost of the total investment.

Ten years ago, the Texas Legislature authorized lenders to make reverse mortgages available in Texas. While they

have taken some time to gain traction, in recent years reverse mortgages have become an increasingly attractive option for older Texans who want to tap home equity, pay off existing loans or simply finance their retirement.

The reverse mortgage market grew 23 percent in Texas last year, according to MetLife's Scott Norman, and is on pace to do \$900 million in business in 2009, which would represent 38 percent year-over-year growth. Today, Texas ranks third in the U.S. in its number of reverse mortgages.

"Texas has the best reverse mortgage consumer protections in the country," Norman says. "In addition to built-in safeguards such as restrictions on rates and fees and cooling-off periods, homeowners are required to receive counseling from an independent counselor." **FN**

For more information on a variety of energy-efficient home investments and tax credits, visit the U.S. Department of Energy Web site at www.energystar.gov.

For information on how to qualify for reverse mortgages, or to see a list of common questions about reverse mortgages, visit the Texas Office of Consumer Credit Commissioner at www.occc.state.tx.us.

THE BOSS CONTINUED FROM PAGE 3

businesses nationwide. Between 1997 and 2006, the number of majority woman-owned firms grew by 42.3 percent.

And while the economic downturn has caused Vandegrift's corporate clients to cut their cookie orders, she says staying flexible is key to business longevity.

"It's a fly-by-the-seat-of-your-pants kind of thing," she says.

OVERCOMING FINANCIAL HURDLES

Perhaps the biggest stumbling block to business ownership is financing. But a down economy doesn't mean loans can't be found, says Graham Painter, executive vice president for Houston-based Sterling Bank.

"There are great opportunities out there for people who can clearly demonstrate that they understand the economy they are in," he says. This means showing lenders a plan on how to cope with slow-moving inventory and strategies to keep business expenses down.

The American Recovery and Reinvestment Act of 2009 has given the SBA an estimated \$730 million that will allow its local offices to waive fees on SBA-backed loans and guarantee some loans up to 90 percent through the end of 2009.

But whether it's a coffeehouse, cookie business or consignment shop, SBDC officials say there's one prerequisite that all small business owners have to meet.

"You've got to have fire in your belly to be able to start a business," says Proudfoot. "You've got to know what you want to do." **FN**

To learn more about starting your own small business, visit the Small Business Administration at www.sba.gov.

For more information on the Texas Comptroller's program for historically underutilized businesses, and how it can help you further develop your business idea, visit www.window.state.tx.us/procurement/proghub/.

DID YOU KNOW?

A reverse mortgage is a loan that allows seniors to access their home's entire equity while continuing to live in the house for the rest of their lives.



Is Cap and Trade Coming?

A Comptroller estimate indicates that CO2 cap and trade could cost Texas anywhere from 164,000 to 400,000 jobs by 2030.

It will either “create millions of clean energy jobs” — or “force more industries to leave America.” It’s a complex and contentious issue, and one that seems likely to be the subject of intensive debate over the next few years.

It’s a regulatory mechanism called cap and trade.

RATCHETING DOWN

The federal and state governments have used various cap and trade systems to target atmospheric pollutants for many years. Since 1993, for instance, Texas has used its Emissions Banking and Trading program to target atmospheric pollutants such as volatile organic compounds and nitrogen oxide.

In theory, at least, such systems are fairly straightforward. Government sets an overall limit of emissions of some pollutant — the “cap” — and then issues permits that allow regulated businesses to emit a set amount of the pollutant.

Owners of these permits can buy and sell them — the “trade.” Businesses that acquire more permits than they use can sell their surplus to other entities that need them.

The government then ratchets down the cap over time, with progressively tighter limits on total emissions. The falling cap creates a market that forces companies to find ways to decrease their share of emissions — or lose ground to competitors that do.

CAPPING LEGISLATION

While previous cap and trade schemes targeted conventionally recognized pollutants, proposed federal legislation would use the system to target “greenhouse” gases, predominately carbon dioxide (CO₂), which are thought to contribute to global warming. At present, the federal government does not regulate or restrict CO₂ releases in any way.

In April 2007, however, the U.S. Supreme Court ruled that the U.S. Environmental Protection Agency has the authority to regulate greenhouse-gas emissions. About six months later, a bill calling for a national greenhouse-gas cap and trade system was introduced in Congress.

While that bill failed to receive approval, new legislation passed by the U.S. House of Representatives — the American Clean Energy and Security Act of 2009 — would establish a cap and trade system intended to cut U.S. carbon emissions by 83 percent below 2005 levels by 2050. The bill’s intent is to discourage the use of nonrenewable, polluting energy sources and encourage their replacement with cleaner renewables.

NO PAIN, NO REDUCTIONS

These goals would not come without some pain, although supporters and detractors offer wildly different views of the economic impact of CO₂ cap and trade. The Institute for Energy Research, for instance,

Proposed regulations will be the subject of intensive debate.

estimated that the 2007 CO₂ bill could cost up to 4 million Americans their jobs and double the price of gasoline.

In May 2009, the nonpartisan Congressional Budget Office estimated that achieving even a 15 percent cut in CO₂ emissions would cost the average U.S. household \$1,600 through higher energy prices.

Supporters tend to take a longer view. U.S. Rep. Edward Markey (D-Mass.) says the 2009 legislation would “create jobs by the millions, save money by the billions and unleash energy investment by the trillions.”

The Electric Reliability Council of Texas (ERCOT), which manages the electrical grid for about 75 percent of the state, estimates rolling back greenhouse gas emissions to 2005 levels by 2013 would raise the average Texan’s electric bill by \$27 a month.

“We’re both the nation’s leading energy producer and consumer, due to our climate and our industrial sector along the Gulf Coast,” says Cary Dupuy, a natural resources policy advisor for the Comptroller’s office. “So Texas will be affected significantly by any policy that caps greenhouse gas emissions.”

An estimate prepared for the Comptroller’s office by the University of Texas at Austin’s Bureau of Economic Geology indicates that CO₂ cap and trade could cost Texas anywhere from 164,000 to 400,000 jobs by 2030, depending on the terms of the legislation. “We’re continuing to follow these proposals, and will update our analysis as legislation moves forward,” Dupuy says. **FN**

For additional cap and trade analysis and information on its potential impact on Texas, go to www.window.state.tx.us/finances/captrade.

Corporate Giants

CONTINUED FROM PAGE 1

“These companies are a critical component of our economy and are one of the primary reasons we’re so resilient. For example, Texas added 1.2 million jobs between 2004 and 2008. More than 70 percent of job growth in the U.S. in 2008 happened in Texas.”

WHY TEXAS WORKS

Michael Brandl, a senior lecturer at the University of Texas at Austin and an expert in the relationship between public policies and economic growth, says that while the mantra of “lower taxes, less regulation” does explain the state’s attractiveness to some degree, it is important to

look beyond that and examine *smart and efficient* taxes and regulations.

“We hear it’s simply lower taxes and regulation,” he says. “But in Texas, it’s more than that. We have regulations, but we have fair and just regulations, unlike many states. Our tax system is more efficient and less susceptible to political manipulations. For many of our programs, it’s ‘you use it and you pay for it.’ It’s win-win.”

Brandl uses the newly developed Katy Toll Road as an example.

“If commuters want to get through traffic faster, they have to pay for it, and the road is financed that way rather than with an income tax where everyone pays for it,” he says. “And if you can’t afford it, you can drive in the free lanes. Much of our tax system has been established the same way, and that’s conducive to corporate growth.”

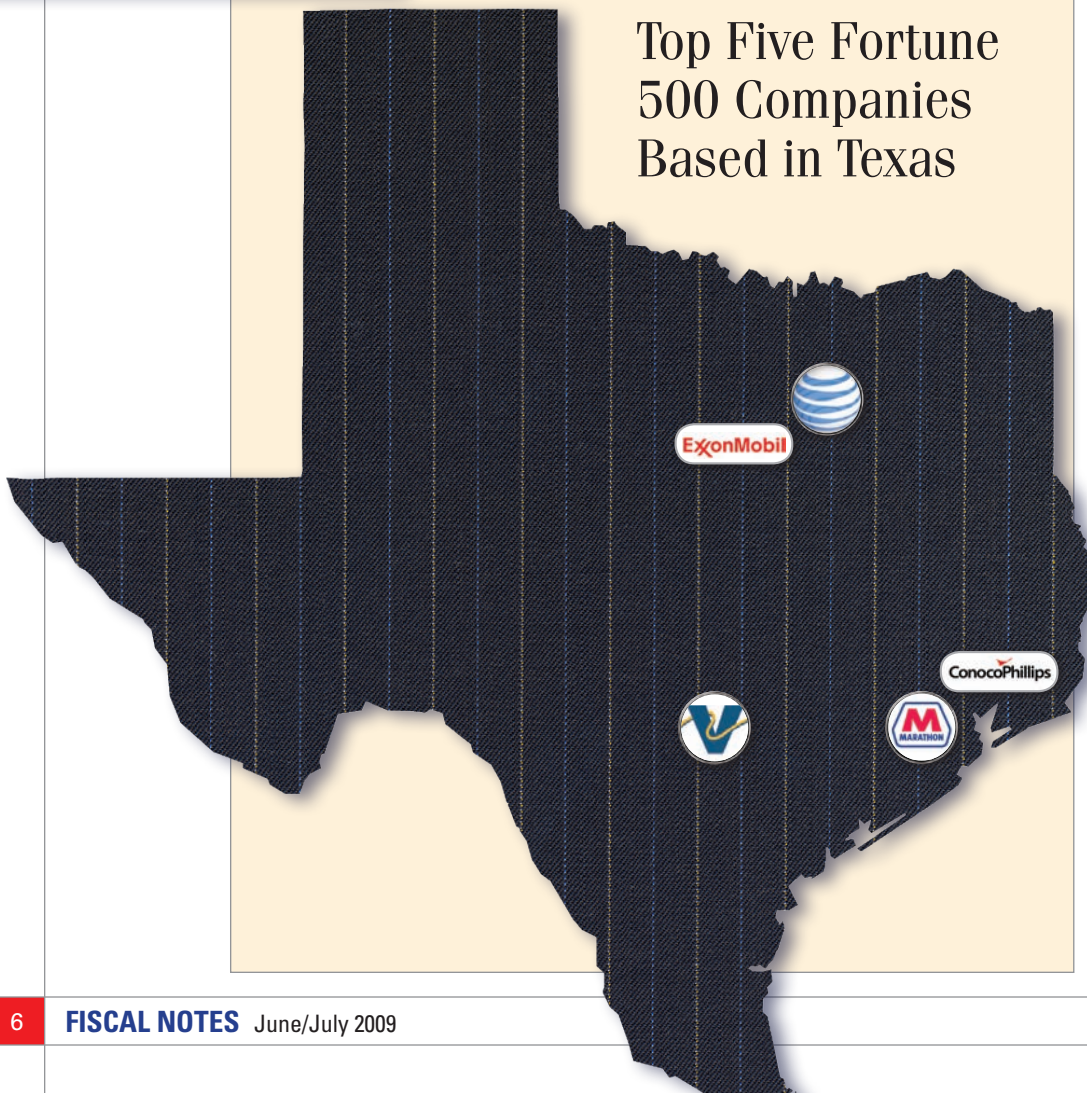
STAYING POWER

The largest corporations headquartered in Texas have deep roots. The top five Fortune 500 companies based here have at least a 17-year history in the state.

Corporation	Fortune 500 Rank	Location	Year Headquartered in Texas
Exxon Mobil	1	Irving	1990
Conoco Phillips	4	Houston	1950
AT&T	8	Dallas	1992
Valero Energy	10	San Antonio	1982
Marathon Oil	23	Houston	1990

Source: 2009 Fortune 500

Top Five Fortune 500 Companies Based in Texas



FLYING RIGHT

Airlines have an especially important presence in Texas. Continental is based in Houston; Southwest Airlines is based in Dallas; and American Airlines' parent company, AMR, is based in Fort Worth.

“Texas has been a big part of our success,” says Kevin Cox, vice president of state and community affairs for American. “We have 25,000 employees in Texas. With the educational level and quality of work force here, we find it pretty easy to attract quality people. These are often high-paying jobs, so one begets the other.”

American moved its headquarters from New York City to Fort Worth in 1979. Since then, the company has had a tremendous impact on the state’s economy, contributing more than \$33 billion in 2008.

The company’s economic impact on the state is massive. The AMR system, which also includes American Eagle, earned nearly \$24 billion in revenue in 2008. A newly announced daily

flight from DFW to Madrid alone is expected to generate \$130 million annually in the North Texas economy, airline officials estimate.



Jerry Howard,
Senior Vice President of
Corporate Affairs,
Marathon Oil Corporation

A NATURAL FIT

Texas is also attractive to employees. The absence of a state income tax lures relocating workers, especially during economic downturns. A robust work force and diverse and specialized academic programs give companies a leg up.

That's a point stressed by Jerry Howard, senior vice president of corporate affairs for the Marathon Oil Corporation.

In the first quarter of 2009, Marathon, which employs nearly 2,000 people in Texas alone, reported a net income of \$282 million. In 2008, the company paid \$39 million in taxes to the state, as well as \$130 million in royalties. Marathon relocated its headquarters from Ohio to Houston nearly 20 years ago.

"We view Texas as a business-friendly state that has a lot going for it in terms of pro-growth strategies and a regulatory system that isn't as burdensome as many other states," he says.

Global giants like Marathon depend on attracting highly skilled, highly educated workers from around the world.

"Our employees find that housing is incredibly affordable, and health care

here, especially in Houston, is second to none," Howard says. "There are a lot of cultural and sporting activities and other quality-of-life [advantages], and these are things that potential employees favor. I recently learned that 90 languages are spoken in Houston, so the diversity here is incredible. When you're a global company, things like that matter."

CORPORATE RESPONSIBILITY

UT's Brandl says for Texas corporations to thrive, business leaders and state officials need to continue supporting initiatives that are not only conducive to profitable business, but also improve public services and infrastructure.

"Corporations are beginning to understand that if public services suffer, they're going to be affected negatively," he says. "When schools are underfunded, the result is lower income levels, which affects consumer bases and promotes an unskilled work force. I'd like to see business leaders push for improved public services as much as they push for lower taxes."

This is a sentiment echoed by Marathon's Jerry Howard.

"We realize we need to have a positive impact in the communities in which we operate," he says. "Health, education and environmental quality are major factors in our success. I think that philosophy is pervasive throughout our company."

Last year, the company donated \$16.5 million to charity, and employees donated an additional \$6 million. The company has been a major sponsor of the Susan G. Komen Race for the Cure since 2005, and is active in a number of Adopt-A-School programs.



THE TRUTH ABOUT HOUSTON

How is Houston holding up in the current economy? Check out www.fiscalnotes.com for an in-depth look at the secrets behind what makes this special city spectacular for both business and residents.

THE DOWNTURN AND BEYOND

Tightening credit markets and reduced consumer confidence have taken a toll on companies all over the world.

"We're continuing to watch the economic situation," says American Airlines' Kevin Cox. "Obviously, there are a number of challenges, from the volatility of the cost of jet fuel to the recession and tightening of the capital markets. Having said that, we're doing things that will help our outlook. We're cutting costs, reducing capacity and reinvesting for the long term. We're very good at working through challenges that might push other companies to the wayside."

Marathon Oil, as well as the entire energy industry, is keeping a close eye not only on the economic downturn but also on federal climate change legislation that could impose more than \$30 billion in additional taxes directly on the industry.

"With respect to proposed legislation, a key factor to consider is that the reduction of emissions is a global issue that requires a global solution," Howard says. "Any solution that doesn't incorporate commitments from other countries is doomed to failure and can result in a major competitive disadvantage for U.S. and Texas companies." **FN**

To see a breakdown of companies in Texas by industry, or for site location tools and data, visit www.TexasAhead.org/business.



Kevin Cox,
Vice President
of State and
Community Affairs,
American Airlines

Photo courtesy of American Airlines



ON THE WEB

For a look at Texas sporting-goods giant Academy Sports and Outdoors, visit us online at www.fiscalnotes.com.

DID YOU KNOW?

Fourteen of Fortune's 100 Best Companies to Work For in 2009 are based in Texas, second only to California, home to 15.

Top Women

Humana chief blazes trail to success.

Women have risen through the ranks to leadership roles in most professions; however, men still are three times more likely to be a chief executive. But in Texas, the business landscape is changing. Successful Texas businesswomen are laying the foundation and raising the bar for a new generation of women leaders.

"A woman can accomplish anything she sets her mind to professionally," says Linda Hummel-McAlpin, chief executive officer for Humana of Central Texas and South Texas. "I have never felt that I had any less than an equal shot at anything I'd set out to do in my career. I'm a hard worker, and I've got a lot of passion about



Linda Hummel-McAlpin,
Market Chief Executive Officer,
Humana of Central and
South Texas

making positive changes in the personal and professional lives of others."

Women comprise 46.5 percent of the U.S. labor force, and slightly outnumbered men in holding 51 percent of management and professional occupations during 2008, according to the U.S. Department of Labor. But they still lag behind when it comes to the top jobs. At just 23.4 percent of the nation's 1.6 million chief executives, women's share has barely changed since the Bureau of Labor Statistics began tracking this statistic in 2003.

Still, women are making progress. In 2009, 15 of the Fortune 500 companies are headed by women CEOs, up from 12 in 2008. Women owned 10.1 million firms nationwide in 2008. These companies employed 13 million people

DID YOU KNOW?

Fortune magazine recently released its list of Fortune 1000 companies. Only two of the 118 Texas companies to make the list are headed by a woman. Cindy B. Taylor is president and CEO of Oil States International headquartered in Houston. Catherine Burzik is director of Kinetic Concepts, based in San Antonio.

and generated \$1.9 trillion in sales. In San Antonio alone, 41,000 women-owned businesses generate sales of \$6.3 billion annually.

CAREER SUCCESS

The Women's Chamber of Commerce of Texas recently named Hummel-McAlpin the Texas Business Woman of the Year. In previous years, these awards have honored top business women in Texas from companies such as Shell Oil USA and Southwest Airlines.

Hummel-McAlpin accepted her position as head of Humana's South Texas operations in 2002, becoming the company's first female market chief executive officer. In 2008 she also acquired responsibilities for Humana's operations in Central Texas, making her accountable for more than 300,000 Humana health plan members. Among her many community activities, Hummel-McAlpin is on the Board of Trustees of the United Way of San Antonio and Bexar County and has chaired the KLRN Women's Health Conference.

She had a career in banking before joining Humana in San Antonio. Just six months after her son's birth in 1990, Hummel-McAlpin was juggling the roles of mother and executive. She says the support of strong mentors helped her develop into a corporate leader.

"Humana puts a lot of focus into developing leadership," she says. "Humana CEO Mike McCallister worked in Texas for five years when I was the sales vice president. He and others were incredibly generous with their time and very influential in my career development. Having strong mentors is key."

Hummel-McAlpin says she had aspirations of leading the charge for change when she joined Humana. While her sights weren't set on becoming CEO, she wanted a position that would allow for growth and give her the ability to make a positive impact on the delivery of quality health care, her organization and her community.

"It's no surprise that Linda has achieved so much professional success and recognition in recent years," says McCallister. "With discipline and enthusiasm, she's grown into a strategic leader who is an inspiration to her state and to her colleagues."

Being a mentor to others is one of her biggest passions.

"The last 10 years, as I've transitioned into the CEO role, a key focus has been to help remove barriers and influence change in the health care industry; it's a very complex system," she says. "I also spend a great deal of my time identifying, educating and mentoring Humana's young future leaders."

Under her leadership, Humana has aligned with community causes in South and Central Texas including the American Cancer Society, United Way, Junior Achievement and mentoring programs. **FN**

For more information on other successful Texas business women, including the Women's Chamber of Commerce of Texas 2008 "Blazing Star" Winners, honored for blazing their own unique paths to professional achievement, visit www.womenschambertexas.com.



A Woman with Power

Seizing opportunity put Paula DiFonzo in a position shared by few Texas women — chief executive of a municipal utility. She has headed New Braunfels Utilities (NBU), the electricity, water and wastewater provider for the Central Texas city of more than 50,000, for the past 15 years.

Becoming head of her hometown utility company wasn't DiFonzo's ambition when she and husband Bob returned to New Braunfels after his military service. DiFonzo, who hadn't attended college by that point, joined NBU 27 years ago in the accounts payable department. A decade later, the mother of two young boys had obtained her Bachelor of Business Administration degree from Southwest Texas State University in San Marcos and was moving up the career ladder as opportunities presented themselves at NBU.

DiFonzo says the utility industry traditionally has retained employees for a long time. General manager and CEO openings were rare, one reason that woman aren't commonly found in leadership roles.

"The evolution is occurring," she says. "I think you'll see more and more women in leadership in public power and utilities. I see them coming up."

"I got to be one of the first in Texas," DiFonzo says. "At the time, I had a board of trustees that said 'We'll take a chance on you.' They typically hired engineers, but they liked what I had to offer — customer service and financial experience."

Fifteen years on, through the challenging deregulated electricity market and ever more complex rules on water and wastewater management, DiFonzo

says she and the board believe it's been a successful decision.

Managing the three facets of NBU's service ensure that no two days are ever the same.

"It's all customer service, but they certainly have very different charges: electricity is a competitive business, wastewater is heavily regulated and water has scarcity of supply," she says. "We've got competitive rates, good relationships with our customers and a good relationship with the community. It carries a lot of responsibility to try to make sure NBU meets its responsibilities to its customers. I think I have developed relationships in the industry that have allowed us to not only learn, but provide leadership within public power in the state."

In addition to the challenges of supply, incorporating new technology and providing superior customer service, NBU faces work force challenges as longtime employees retire, taking decades of knowledge with them.

"We have to develop our work force, so we have begun trying to create programs that can be used to train new workers and support continuing education," she says. "We work with other industries and have been building curriculum with [Alamo College's] Central Texas Technology Center in New Braunfels. Historically, we kept a small work force — people wore a lot of hats. We are developing a human resources department that that can do the next big job of recruitment, taking a multi-pronged attack of external marketing and internal development." **FN**



Paula DiFonzo,
Chief Executive,
New Braunfels
Utilities

Women by the Numbers

Women, minorities fuel work force growth

40%

The share of U.S. women who were employed in 1974.

56.6%

The share of U.S. women who were employed in 2006.

53.5%

The share of Texas women employed in 2008.

57.2%

The share of black women in Texas who were employed in 2008.

14.2%

The share of the overall work force made up by Hispanic women in 2008.

For more information on national and state labor statistics, visit the Bureau of Labor Statistics at www.bls.gov.

(Tracey Lamphere)

Craft Brewing in Texas

Sparkling rise,
cloudy future?

Brock Wagner spent seven years as an investment banker, working on billions of dollars' worth of mergers and acquisitions — but his heart wasn't in it.

"I came to realize that money didn't motivate me," he says. "I had to find something I was passionate about." And that "something" turned out to be beer.

But not just any beer. For more than 14 years, Wagner's Houston-based Saint Arnold Brewing Company has made beers and ale according to European tradition, without the additives and preservatives common in mass-produced beers, making it a respected leader in the brewing industry.

"BIG BEER"...

In Texas, beer is business of the biggest kind. A recent report by the National Beer Wholesalers Association indicates the beer industry contributes more than \$16 billion annually to the Texas economy and helps support nearly 148,000 jobs in the state.

And some very large companies dominate the industry. By some estimates, 80 percent of the beer Americans drink is manufactured by just two firms, Belgian-owned Anheuser-Busch InBev and SABMiller, based in London.

At the other end of this spectrum, however, are a host of small companies dedicated to quality rather than quantity, preserving traditional, handcrafted beer styles in the face of a foamy ocean of taste-alike brews.

... AND SMALL BREWERIES

The Brewers Association, a craft brewing trade group, defines craft brewing as being "small, independent and traditional" — that is, brewers that make fewer than 2 million barrels a year; are not owned or controlled by a company that is not itself a craft brewer; and brew in traditional styles, generally using only hops, malted barley and water.

The association recognizes four

categories of craft brewer: regional craft breweries, such as the Spoetzl Brewery in Shiner, which make fewer than 2 million barrels a year; microbreweries, which make fewer than 15,000 barrels annually; brewpubs, which make beer for sale on their own premises; and contract brewers, which either produce craft brews for sale by another company or buy such brews for sale under their own labels.

Craft brewers are hardly a major threat to Bud and Miller. According to the Brewers Association, craft brewers accounted for about 4 percent of all American beer production and 6.3 percent of sales revenue as of December 2008.

But the category is a rare growth area in an otherwise mature market. Craft beer sales rose by 5.9 percent in 2008. Other domestic beer sales were flat at 0.6 percent, while import beer sales fell by 3.4 percent.

Texas has about 40 craft brewers, with several more in the planning stages. The state ranked fifth in the nation for craft beer production in 2008, behind California, Ohio, Colorado and Oregon. Texas' craft brewers produced nearly 456,000 barrels in 2008, about 8.5 percent more than 2007's 420,000 barrels. By far the largest is Spoetzl, the nation's fourth-largest craft brewer and 10th-largest brewer overall in terms of sales.

THREE TIERS

America's craft-brewing Renaissance began in the 1970s and gained significant momentum in the 1990s. Since then, however, the Texas brewing scene has witnessed a series of vanished labels and closed brewpubs.

According to Wagner, the main hurdle facing Texas' small breweries is the inflexibility of state laws regulating the sale and distribution of beer.

After the repeal of Prohibition, most states, including Texas, adopted some

Texas'
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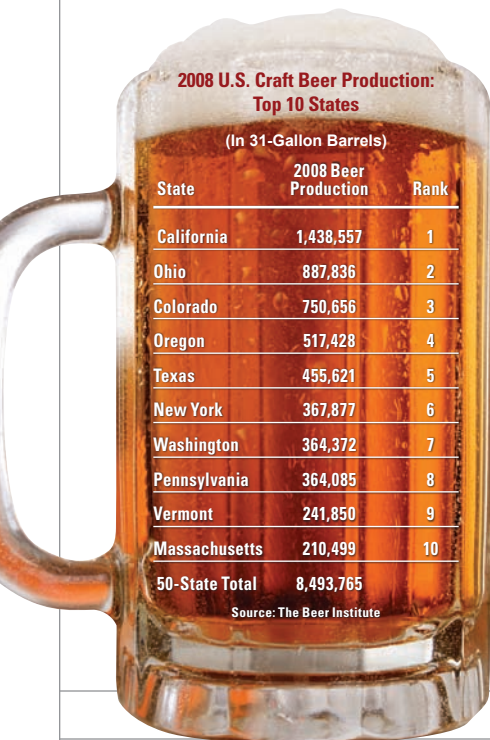
Photo courtesy of Saint Arnold Brewing Company

"A little bit of direct sales can have huge effects on your profit margin."

Brock Wagner
founder, Saint Arnold Brewing Company

form of a "three-tier" regulatory system for alcohol, which firmly separates the manufacture, distribution and sale of alcoholic beverages. The scheme was intended to prevent the formation of monopolies, simplify tax collections and ensure fair and orderly markets.

In recent years, however, many states have allowed some exceptions to the three-tier requirements. Texas, for instance, now allows its wineries to sell wine directly to visiting customers. For many small wineries, such sales spell the difference between profit and bankruptcy.



For small brewers such as Saint Arnold, however, there is no similar exception. They can offer brewery tours, but visitors cannot purchase the products they've seen being made.

Brewpubs can sell beer directly to the public, but cannot distribute their products to other establishments.

UNDERCUT BY OUT-OF-STATERS

This puts Texas' craft brewers at a commercial disadvantage to companies from other states.

"A little bit of direct sales can have huge effects on your profit margin," Wagner

A FOAMY OCEAN

In 2006 (most recent data available), U.S. brewers produced more than 180 million barrels of beer. Texas was the nation's third-largest producer, with 19.4 million barrels.

CRAFTY BREWS

In 2008, Texas was fifth among states in its production of craft beer.

says, noting that he'd make as much selling one six-pack to a visitor as selling 10 to a distributor. "Wineries can do it. It's a point of frustration for us that we can't.

"Where breweries are allowed to make direct sales to the public, they use

those sales to fund their marketing efforts," he says. "That allows them to come here and make sales in Texas. I've had California breweries tell me they love the laws in Texas, and hope they don't change, because it gives them an advantage over us."

Despite the hurdles they face, though, some Texas craft brewers are succeeding.

"Those of us who are still around are pretty healthy — those who made it over that initial hump," Wagner says. "Our sales keep going up. People in Texas are coming to appreciate craft beer."



And for Saint Arnold, success has brought the need for roomier facilities.

"We're excited to be building a new brewery. It's a \$6 million project, going in just north of downtown Houston," Wagner says. **FN**

For more information on craft brewing, visit the Brewers Association Web site at www.beertown.org.

Brief Bytes



TEXAS CITIES RULE JOBS LIST

Nine of the 20 cities on the *Forbes* "Best Cities to Find Jobs" list are in Texas.

Odessa topped the list of the top 10 small cities and was joined by Longview, Killeen-Temple-Fort Hood, Laredo and College Station-Bryan. Texas also dominated the big cities list with Austin at No. 1. Houston, San Antonio, Fort Worth and Dallas followed right behind.

The list of mid-sized cities included Corpus Christi and McAllen-Edinburg-Mission.

The study is based on job growth in 333 regions across the U.S. The analysis looked not only at job growth in the past year but also at how employment figures have changed since 1996.

The magazine credited the energy industry with contributing to Texas' success.

To find out where your city ranks, visit www.forbes.com.

(Tracey Lamphere)

**HELP
WANTED**

TEXAS FILMS GET A REEL BOOST

Film projects in Texas are revving up for the summer, as new legislation passed in April strengthened incentives for filmmakers.

House Bill 873 provides incentives for film, television, video and digital interactive media production companies.

The new law lets the state offer filmmakers more competitive incentives, says Bob Hudgins, director of the Texas Film Commission.

"Now we've opened it up to the smaller projects, which is really important because we need to support independent filmmakers," says Hudgins.

The Texas Moving Image Industry Incentive Program offers cash grants equal to 5 percent of qualified in-state spending on feature films, documentaries, television programs, commercials and video games. Under

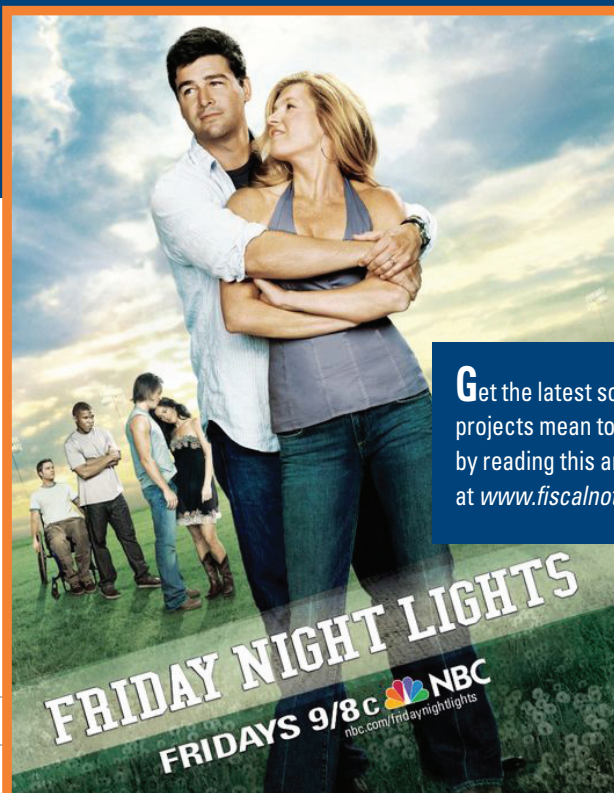
the previous program, projects had to total \$1 million to qualify for the 5 percent grant.

The new legislation opens the grant to projects between \$250,000 and \$1 million. Films with budgets from \$1 million to \$5 million will receive a 10 percent cash rebate, while films with budgets of more than \$5 million will qualify for a 15 percent rebate.

Austin-based Troublemaker Studios has applied for grants under the new law for its upcoming \$7 million film "Machete," which at press time expected to start shooting in Texas in late July. Warner Brothers' "The Jetsons" and the TV series "Friday Night Lights" are also set to begin shooting this summer.

For more information, visit the Texas Film Commission at www.governor.state.tx.us/film.

(Karen Hudgins)



Get the latest scoop on what film projects mean to the state economy by reading this article in its entirety at www.fiscalnotes.com.



CREATIVE JOBS FUEL THE ECONOMY

Texas' creative sector is growing and generating wages up to 80 percent higher than jobs in other industries. Industries such as digital media, music and arts-related tourism generated 675,000 jobs, up 20 percent from five years ago, according to a study by the Texas Cultural Trust. By 2016, one in 12 jobs in Texas will likely be in the creative sector.

In Houston, the nonprofit arts sector generated \$626.3 million in economic impact, supported 14,115 full-time jobs, and contributed \$69.5 million in taxes to local and state government in 2008. Special events also have a large influence on the state's economy. For example, South By Southwest in 2008 had a direct and indirect economic impact of \$103 million on the Austin regional economy.

To read the full report, visit www.createtexas.org.

(Tracey Lamphere)

CONCURRENT EDUCATION

Students in Bryan who risk not completing high school have an opportunity to learn real job skills while earning their high school diploma. Bryan Independent School District's Optional Flexible School Day Program offers academic and technical training options to students who cannot participate in a traditional classroom setting because of life challenges and other circumstances.

Starting last fall, Blinn College began offering introductory and welding courses that the students attended two evenings each week.

"The first pilot class has become three concurrent classes," says Brian Burk, Blinn's director of work force education. "This past semester, we were very fortunate almost all classes were at capacity."

Blinn offers applied technology training in 13 Brazos Valley counties and has evening welding programs using facilities at other high schools, including Hearne and Sealy.

For more information, visit Blinn College online at www.blinn.edu.

(Gerard MacCrossan)



FEWER RAPTORS, FEWER JOBS?

In April, U.S. Defense Secretary Robert Gates announced budget proposals that would end production of the Air Force's most advanced fighter, the F-22 Raptor. Completing units currently in production will give the Air Force a fleet of 187 Raptors by 2012, about 60 fewer than initially planned. About 2,000 of Lockheed Martin's Fort Worth employees work on the Raptor. At press time, it was unclear what effect the F-22 decision would have on the company's work force. The proposed budget also increases orders for another fighter, Lockheed's F-35 Lightning II, which is assembled in Fort Worth.

For more information, visit Lockheed Martin's Web site at www.lockheedmartin.com.

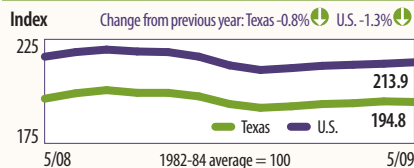
(Bruce Wright)

Texas by the Numbers

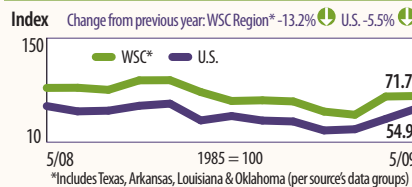
Key Texas Economic Indicators

Between May 2008 and May 2009, the U.S. economy shed about 5.4 million jobs, a 3.9 percent decline. Texas lost 222,600 jobs between May 2008 and May 2009, a 2.1 percent decrease in nonfarm employment. In May 2009, 10.4 million Texans were employed, 24,700 fewer than during April. Over the last year, Texas added jobs in educational and health services, leisure and hospitality and government.

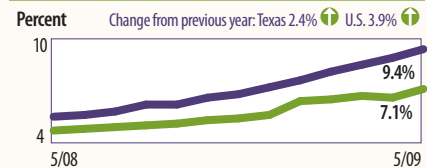
Consumer Price Index



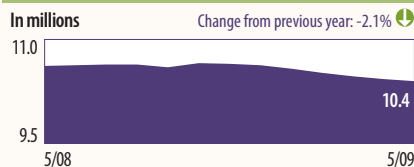
Consumer Confidence Index



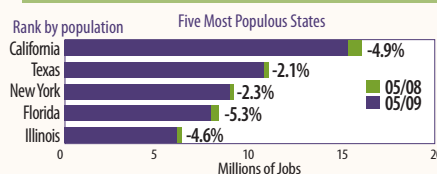
Unemployment Rate



Nonfarm Employment



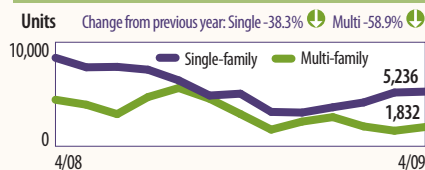
Change in Nonfarm Employment



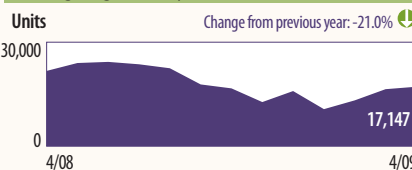
State Sales Tax Collections, Retail Establishments



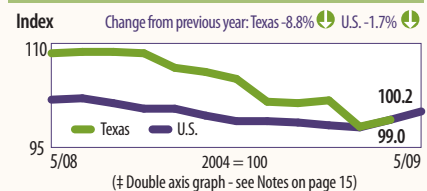
Housing Permits



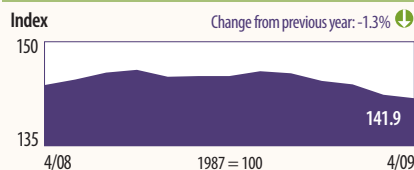
Existing Single-Family Home Sales



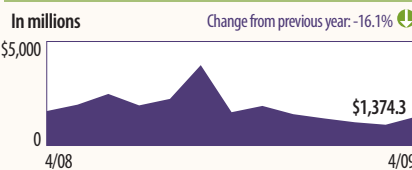
Leading Economic Indicators Index



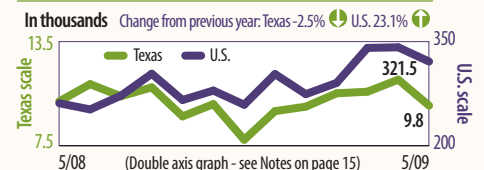
Industrial Production Index



Contract Value, Non-Residential Building Construction



Mortgage Foreclosures



Texas Production and Consumption Indicators

	Crude Oil Production	Natural Gas Production	Active Oil & Gas Drilling Rigs	Motor Fuels Taxed		Median Sale Price, Existing Single-family Home	Auto Sales	Cigarettes Taxed
	Value	Value	Units	Gasoline	Diesel	Dollars	Net Value	Packages of 20
Date	(Millions)	(Millions)		(Millions of Gallons)			(Millions)	(Millions)
2006	\$19,657.5	\$19,852.1	746	11,372.8	3,731.6	\$143,100	\$45,756.2	1,280.2
2007	21,850.3	22,968.4	834	11,624.8	3,886.9	147,500	48,500.6	1,085.8
Mar-08	2,724.7	2,712.2	881	940.6	324.1	146,800	3,940.0	79.1
Apr-08	2,818.8	2,807.9	887	1,010.4	281.1	146,800	3,957.8	90.5
May-08	3,573.5	3,442.6	906	975.8	343.1	150,600	3,791.7	98.3
Jun-08	3,394.2	3,661.8	923	1,018.3	331.5	154,700	4,051.0	89.6
Jul-08	3,518.2	4,035.3	920	954.0	321.3	152,900	4,148.3	93.3
Aug-08	3,045.1	2,901.2	934	982.3	342.5	151,400	3,829.4	80.9
Sept-08	2,599.8	2,194.5	946	1,054.7	248.6	144,900	3,727.2	88.9
Oct-08	2,056.9	2,077.7	925	852.3	377.9	142,200	3,317.6	98.6
Nov-08	1,491.2	1,656.4	899	1,018.0	343.5	137,200	2,862.9	85.3
Dec-08	1,025.9	1,809.2	826	963.2	283.5	140,600	2,941.7	99.3
Jan-09	990.9	1,805.4	701	1,023.2	294.7	131,600	3,022.6	73.0
Feb-09	825.8	1,137.4	574	965.3	291.5	138,100	2,923.8	77.0
Mar-09	1,136.7	1,061.9	445	916.6	281.8	139,600	2,892.3	86.4
Apr-09	1,147.4		393	1,019.0	305.7	142,700	2,501.8	77.5
May-09			347	989.9	289.8			77.8

May Cash Condition¹

(Amounts in millions)	General Revenue	Other Funds	Total Cash
Beginning Balance May 1, 2009	\$7,540.2	\$22,199.5	\$29,739.7
Revenue/Expenditures			
Revenue	9,656.2	1,734.0	11,390.2
Expenditures	5,640.3	2,064.9	7,705.2
Net Income (outgo)	\$4,015.9	\$-330.9	\$3,685.0
Net Interfund Transfers and Investment Transactions	\$-1,058.8	\$956.4	\$-102.4
Total Transactions	2,957.1	625.5	3,582.6
End Cash Balance May 31, 2009²	\$10,497.3	\$22,825.0	\$33,322.3

¹ Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund balance includes \$4.9 billion derived from the sale of cash management notes.

State Revenue/All Funds¹

(Amounts in millions)	Monthly Revenue May 2009	Fiscal Year to Date Sept. 2008-May 2009 Revenue	% Change YTD/YTD
Tax Collections by Major Tax			
Sales Tax	\$1,778.6	\$16,021.0	0.5%
Oil Production Tax	57.1	673.1	-30.0
Natural Gas Production Tax	24.2	1,248.6	-30.0
Motor Fuel Taxes	250.9	2,258.6	-2.9
Motor Vehicle Sales Tax	185.7	1,934.6	-22.5
Franchise Tax	3,946.8	4,036.1	372.3
Cigarette & Tobacco Taxes	111.5	1,121.1	6.0
Alcoholic Beverages Tax	66.3	593.8	2.5
Insurance Companies Tax	-25.4	760.2	-14.8
Utility Taxes ²	4.5	358.9	5.3
Inheritance Tax	0.1	2.6	-51.9
Hotel/Motel Tax	27.1	257.3	-4.2
Other Taxes ³	117.9	967.4	-11.1
Total Tax Collections	\$6,545.4	\$30,233.5	5.7%
Revenue by Receipt Type			
Tax Collections	\$6,545.4	\$30,233.5	5.7%
Federal Income	2,929.1	23,258.9	21.3
Interest and Investment Income	76.9	1,326.2	-39.4
Licenses, fees, permits, fines,	581.1	5,356.4	-36.2
Contributions to Employee Benefits	458.9	3,766.9	6.8
Sales of Goods and Services	30.4	319.5	-8.3
Land Income	34.7	648.2	-11.5
Net Lottery Proceeds ⁴	124.2	1,179.2	-3.6
Other Revenue Sources	609.5	5,965.4	12.9
Total Net Revenue	\$11,390.2	\$72,054.1	3.7%

¹ Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Includes the utility, gas utility administration and public utility gross receipts taxes.

³ Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.

⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

Notes:

Crude oil and natural gas figures are net taxable values. Gasoline gallons include gasoline. Auto sale values are calculated from motor vehicle taxes collected on new and used vehicle sales. All figures are seasonally adjusted, except for sales tax collections; rigs; consumer price; housing permits/sales/prices; and consumer confidence. Figures are based on the most recent available data. Annual figures are for calendar years. († Double axis graphs: Graphs with two vertical axes show values for Texas on the left and values for the U.S. on the right. This method shows trends more clearly over the last year when data values are substantially different at state and national levels.)

Sources:

Key Texas Economic Indicators:

Consumer Price Index, Change in Nonfarm Employment: U.S. Bureau of Labor Statistics
Consumer Confidence Index: The Conference Board
Leading Economic Indicators Index: Texas Comptroller of Public Accounts, The Conference Board
Unemployment Rate: Texas Workforce Commission, U.S. Bureau of Labor Statistics
Nonfarm Employment: Texas Workforce Commission
State Sales Tax Collections, Retail Establishments: Texas Comptroller of Public Accounts
Housing Permits, Existing Single-family Home Sales: The Real Estate Center at Texas A&M University

Industrial Production Index: Federal Reserve Bank of Dallas
Contract Value, Non-Residential Building Construction: McGraw-Hill
Mortgage Foreclosures: RealtyTrac

Texas Production and Consumption Indicators:

Crude Oil, Natural Gas, Motor Fuels, Auto Sales, Cigarettes: Texas Comptroller of Public Accounts
Active Oil & Gas Drilling Rigs: Baker-Hughes Incorporated
Median Sale Price, Existing Single-family Home: The Real Estate Center at Texas A&M University

State Expenditures/All Funds¹

(Amounts in millions)	Monthly Expenditures May 2009	Fiscal Year to Date Sept. 2008-May 2009 Expenditures	% Change YTD/YTD
By Object			
Salaries and Wages	\$869.2	\$7,929.7	6.2%
Employee Benefits/Teacher Retirement Contribution	753.1	6,687.9	5.5
Supplies and Materials	67.0	694.1	2.1
Other Expenditures	258.4	2,427.1	21.7
Public Assistance Payments	3,234.4	28,338.6	18.2
Intergovernmental Payments:			
Foundation School Program Grants	952.8	14,882.0	-0.7
Other Public Education Grants	1,381.8	3,574.0	2.0
Grants to Higher Education	102.1	883.6	14.3
Other Grants	230.5	2,493.8	45.6
Travel	12.5	123.0	13.9
Professional Services and Fees	225.4	1,523.1	-3.1
Payment of Interest/Debt Service	34.1	678.3	10.9
Highway Construction and Maintenance	342.1	3,069.2	-21.2
Capital Outlay	35.9	343.8	-1.1
Repairs and Maintenance	63.5	525.9	11.6
Communications and Utilities	33.3	316.6	-15.4
Rentals and Leases	20.8	209.8	9.5
Claims and Judgments	7.0	69.1	-16.8
Cost of Goods Sold	30.6	584.8	-4.9
Printing and Reproduction	3.3	37.0	13.8
Total Net Expenditures	\$7,705.2	\$75,391.4	8.1%
By Function			
General Government			
Executive	\$503.3	\$4,641.8	9.7
Legislative	12.6	105.0	13.4
Judicial	23.4	184.0	0.6
Subtotal	539.3	4,930.9	9.4
Health and Human Services	3,146.7	27,502.3	20.0
Public Safety and Corrections	517.4	3,876.6	23.4
Transportation	526.8	4,955.2	-14.6
Natural Resources/Recreational Services	144.7	1,574.0	6.0
Education	2,046.7	25,152.1	1.1
Regulatory Agencies	22.0	255.8	19.0
Employee Benefits	647.3	5,758.9	4.6
Debt Service—Interest	34.1	678.3	10.9
Capital Outlay	35.9	343.8	-1.1
Lottery Winnings Paid ²	44.3	363.5	18.1
Total Net Expenditures	\$7,705.2	\$75,391.4	8.1%

¹ Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.

² Does not include payments made by retailers. Previously shown as "Other expenditures."

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year to date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.



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FISCAL NOTES also provides a monthly summary of the financial statements for the State of Texas.

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A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts

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Top Small Business Havens

Texas is one of the best places in the nation for small business, according to a ranking by the Small Business & Entrepreneurship Council. SBEC's 2008 "Small Business Survival Index" ranked Texas second among the 10 largest states for the friendliness of its policies toward small businesses.

Small Business Survival Index 2008: Ranking the 10 Largest States

RANK	STATE
4	Florida
6	Texas
12	Georgia
18	Ohio
19	Michigan
24	Illinois
25	Pennsylvania
39	North Carolina
45	New York
49	California